

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Suttons Bay	County Leelanau
Audit Date 12/31/04	Opinion Date 4/27/05	Date Accountant Report Submitted to State: 6/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised
2. We are certified public accountants registered to practice in Michigan


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below

- | | |
|---|--|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year) |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations	✓		
Reports on individual federal financial assistance programs (program audits)			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 250 Front St., PO Box 808	City Traverse City	State MI	ZIP 49684
Accountant Signature 		Date 6/29/05	

VILLAGE OF SUTTONS BAY, MICHIGAN

FINANCIAL STATEMENTS

**For the Fiscal Year Ended
December 31, 2004**

VILLAGE OF SUTTONS BAY, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

April 27, 2005

The Honorable President and
Members of the Village Council
Village of Suttons Bay
Suttons Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **Village of Suttons Bay, Michigan** (the "Village"), as of and for the year ended December 31, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison of the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note IV.D, the Village adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 and GASB Interpretation 6 as of and for the year ended December 31, 2004. This results in a change to the Village's format and content of the financial statements.

Management's Discussion and Analysis listed on pages 3-12 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The combining and individual nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated, in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Management's Discussion and Analysis

As Village Manager for the Village of Suttons Bay, and head of the Village's management team, it is my pleasure to welcome you to this review of our fiscal year ending December 31, 2004. This is the first of our annual financial audits that has incorporated the financial reporting changes called for in the GASB 34 standard. The goal of GASB 34 is to give the reviewer of this document a more balanced picture of the Village's assets and liabilities. We hope that you will find that to be the case.

Also new this year is management's discussion and analysis. It is the goal of this analysis to help make the information contained in these statements more approachable and meaningful for those who review it. If you have any questions, comments or suggestions that would help us in that goal, please feel free to let me know.

As management of the Village of Suttons Bay, we offer readers of the Village of Suttons Bay's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Village's primary government exceeded its liabilities at the close of the most recent fiscal year by \$5,845,865 (net assets). Of this amount, \$1,051,546 (unrestricted net assets) may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets decreased by \$43,821.
- At the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$338,729, an increase of \$168,276 in comparison with the prior year. Approximately 97.0% of the ending fund balances, or \$327,253 is available for spending at the Village's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$282,005, or 69.0% of the total general fund expenditures, not including transfers out.
- The Village's total bonded and notes payable debt decreased by \$108,412 during the current fiscal year. The Village issued \$293,500 of general obligation bonds for a current refunding of \$280,000 of revenue bonds obligated by Leelanau County.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include the Village council, general government, public safety, public works, recreation and culture, and highway and streets. The business-type activities of the Village include water, sewer and marina operations.

The government-wide financial statements can be found on pages 13-15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, which is considered to be major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for general and special revenue funds. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget for the major fund.

The basic governmental fund financial statements can be found on pages 16-21 of this report.

Proprietary funds. The Village maintains three different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its water, sewer and marina operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its motor pool. Because the service benefits the General, Major and Local Streets, Water and Sewer Fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water, Sewer and Marina Fund, which are considered to be major funds of the Village.

The basic proprietary fund financial statements can be found on pages 22-27 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-41 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 42-45 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$5,845,865 at the close of the most recent fiscal year.

By far the largest portion of the Village's net assets reflects its investment in capital assets (for example land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot themselves be used to liquidate these liabilities.

(Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.)

Village of Suttons Bay's Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and other assets	\$ 401,272	\$ 776,273	\$ 1,177,545
Capital assets	<u>1,515,801</u>	<u>4,128,410</u>	<u>5,644,211</u>
Total assets	<u>1,917,073</u>	<u>4,904,683</u>	<u>6,821,756</u>
Long-term liabilities outstanding	53,580	796,312	849,892
Other liabilities	<u>27,298</u>	<u>98,701</u>	<u>125,999</u>
Total liabilities	<u>80,878</u>	<u>895,013</u>	<u>975,891</u>
Net assets			
Invested in capital assets, net of related debt	1,462,221	3,332,098	4,794,319
Unrestricted	<u>373,974</u>	<u>677,572</u>	<u>1,051,546</u>
Total net assets	<u>\$ 1,836,195</u>	<u>\$ 4,009,670</u>	<u>\$ 5,845,865</u>

The remaining balance of *unrestricted net assets* (18% or \$1,051,546) may be used to meet the Village's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in both categories of net assets, both for the Village as a whole, as well as for its separate governmental and business-type activities.

The Village's net assets decreased by \$43,821 during the current fiscal year. This decrease was as a result of the following:

- Settlement of the Sutterfield, Travis vs. the Village of Suttons Bay Lawsuit
- Increased expenses for the wastewater treatment plant engineering
- The Village installed new utility meters during the year to replace the outdated meters

Village of Suttons Bay's Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Program revenues			
Charges for services	\$ 16,030	\$ 670,979	\$ 687,009
Operating grants and contributions	41,948	-	41,948
Capital grants and contributions	9,789	-	9,789
General revenues			
Property taxes	448,823	-	448,823
Grants and contributions not restricted to specific programs	105,308	-	105,308
Other	<u>8,991</u>	<u>5,596</u>	<u>14,587</u>
Total revenues	<u>630,889</u>	<u>676,575</u>	<u>1,307,464</u>
Expenses			
General government	160,002	-	160,002
Public safety	73,897	-	73,897
Public works	226,121	-	226,121
Recreation and culture	49,055	-	49,055
Sewer	-	339,298	339,298
Water	-	195,321	195,321
Marina	-	304,008	304,008
Interest on long-term debt	<u>3,583</u>	<u>-</u>	<u>3,583</u>
Total expenses	<u>512,658</u>	<u>838,627</u>	<u>1,351,285</u>
Increase (decrease) in net assets before transfers	118,231	(162,052)	(43,821)
Transfers	<u>40,000</u>	<u>(40,000)</u>	<u>-</u>
Increase (decrease) in net assets	158,231	(202,052)	(43,821)
Net assets – beginning of year	<u>1,677,964</u>	<u>4,211,722</u>	<u>5,889,686</u>
Net assets – end of year	<u>\$ 1,836,195</u>	<u>\$ 4,009,670</u>	<u>\$ 5,845,865</u>

Governmental activities: Governmental activities increased the Village's net assets by \$158,231. Key elements of this increase are as follows:

- Property tax collections
- Transfers from the Marina fund

Business-type activities: Business-type activities decreased the Village's net assets by \$202,052. Key elements of this decrease are as follows:

- Increased expenses related to upgrades of the wastewater treatment plant
- Additional expense related to the replacement of the outdated utility meters with new meters

Financial Analysis of the Village's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a Village's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$338,729, an increase of \$168,276 in comparison with the prior year. Approximately \$327,000 constitutes *unreserved fund balance*, which is available at the Village's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed as a reserve for prepaid expenditures.

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, \$11,476 (3.9%) of the total fund balance of the General Fund of \$293,481 was reserved for prepaid expenditures and the remaining \$282,005 was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures, not including transfers to other funds. Unreserved fund balance represents 69.0% of total General Fund expenditures.

The fund balance of the Village's General Fund increased by \$167,219 during the current fiscal year. In addition to operating revenues exceeding operating expenses by \$145,719, the Village also received net transfers in the amount of \$21,500, which contributed to the increase in the fund balance of the General Fund.

Proprietary funds. The Village's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$691,085, with capital assets net of related debt of \$3,332,098. The Water, Sewer and Marina Funds had a decrease in net assets of \$188,539. Other factors concerning the finances of these funds have already been addressed in the discussion of the Village's business-type activities.

General Fund Budgetary Highlights:

- The Marina fund transferred funds to the General fund during the year.
- Creating a motor pool to be a self-sufficient enterprise reduces the liability requirements on the General fund.
- Charging the Marina an annual lease, provides a positive cash flow to the general account.
- Separating department liability such as insurance and fringe benefit cost to the appropriate enterprise accounts increases available revenue resources for the General fund.

The original expenditures budgeted for fiscal year end 2004 budget were \$605,131. The amended expenditures were \$606,931. Actual expenditures were \$406,381, a positive variance of \$200,550 from the amended budget. This results primarily because of the following:

- Instead of liabilities being expended from one primary means such as the general account, expenditures were transferred to the appropriate enterprise accounts in order to draw from the appropriate accounts but after the budget had been established.

Capital Asset and Debt Administration

Capital Assets. The Village's amount of capital assets in its governmental and business-type activities as of December 31, 2004 amounted to \$5,644,211 (net of accumulated depreciation). Capital assets include land, land improvements, buildings and systems improvements, marina, and machinery and equipment. The total increase in the Village's capital assets for the current fiscal year was 0.7% (a 0.5% percent increase for governmental activities and 0.2% increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- A water distribution line was added in the year for the water department.
- Accumulated costs related to the upgrade of the wastewater treatment plant.
- New equipment such as a patrol vehicle and sidewalk cleaner had been acquired.

Additional information on the Village's capital assets can be found in Note III.C on pages 34-36 of this report.

Village of Suttons Bay's Capital Assets (net of depreciation)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 1,165,964	\$ 941,868	\$ 2,107,832
Construction in progress	-	159,087	159,087
Land improvements	-	393,994	393,994
Buildings and systems	205,580	2,152,515	2,358,095
Marina	-	470,576	470,576
Equipment	<u>144,257</u>	<u>10,370</u>	<u>154,627</u>
Total	<u>\$ 1,515,801</u>	<u>\$ 4,128,410</u>	<u>\$ 5,644,211</u>

Note Payable Long-Term Debt. At the end of the current fiscal year, the Village had total bonded debt and notes payable outstanding of \$849,892 which comprises debt backed by the full faith and credit of the Village.

Village of Suttons Bay's Outstanding Debt
(general obligation and revenue bonds)

The Village's primary government has \$849,892 in long-term debt. The breakdown of this debt is as follows:

General obligation bonds	\$ 293,500
Revenue bonds	234,000
Notes payable	<u>322,392</u>
Total	<u>\$ 849,892</u>

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of the local unit's total state equalized valuation. The current debt limitation for the Village is \$4,706,020, which is significantly greater than the Village's outstanding general obligation debt.

Additional information on the Village's long-term debt can be found in Note III.F on pages 37-38 of this report.

Economic Factors and Next Year's Budget Considerations

The coming fiscal year is expected to see a continuation of the challenging economic times; the much anticipated and often predicted national economic turn-around has yet to arrive. The impact this has had on the national and state budgets continues to cause difficulties for local government. This is seen more directly on the Village in the State of Michigan's cuts in state shared revenues; while we have yet to experience major revenue sharing shortfalls, we have received additional grants for special projects to assist in stabilizing the Village's economic projections. This weakness will be offset in part by continuing to invest back into the Village in the terms of new construction and remodeling, which in turn will increase property tax revenues. The more significant investment the Village is able to pursue to increase their advantages is in their infrastructure improvements.

In addition to the revenue forecast the Village has been faced with significant expenditure increases especially in our insurance coverage for both liability and health related insurances. Although this too is a national issue it does not minimize its impact on the Village's cost of doing business. These pressures are now being estimated to a 'moderate' range in the coming year and are expected to level off in the near future. This is based on the insurance company's new rate structure and how the Village fits into their formulation table.

The Village is fortunate to have built up unrestricted net assets of approximately \$1,052,000. In a worst-case scenario these funds provide the Village both the time and the means to weather most unexpected challenges.

It should be noted there has been an increase in demand for improvements to most of the Village's infrastructure systems. Those demands are currently being addressed for the Village's water system with significant production, storage and distribution improvements that need to be upgraded. These improvements are mainly paid for through user fees (also known as rates), as well as, funds established through rates for future improvements and expansions. Work is currently underway for significant improvements to the Village's sanitary sewer system; approval for low-rate financing from the State has been received which will be repaid through future user fees.

Other areas that need attention include the Village's road and sidewalk systems. Current budgetary funding takes care of most of the basic annual maintenance but does not provide for necessary repairs, expansion or long-term improvements to the overall systems. To better address these needs the Village must dedicate additional sources, which may include a dedicated millage for such improvements and increased use of special assessments, or other methods similar to these approaches. This is an area where state and federal funding creates a short fall which means the Village is responsible for funding future needs. Through items such as an appropriate capital improvement plan, these major renovations can be obtained over time, however due to the lack of past upkeep there are areas that are significant in which a Capitals Improvement Plan will fall short, this is where alternative funding expenditures need to come into play.

The Village is also exploring making improvements to its marina and boat launch to both improve the long-term economic viability of its commercial district and provide the necessary mass to allow the marina to remain self-sustaining. It is anticipated that this would be financed through both grant funding and user fees.

The marina is a critical economic incubator for the business district during the spring through fall seasons, and funds should be regularly established for improvements within the marina in order to permit the marina to keep up with the pace of the marina's market of demand. Over the years the marina has seen relatively little improvements in order to produce higher returns; however, with the lack of improvements in keeping pace with the times means the marina is not producing at a peak level and that has a direct impact on the marina's marketability.

In addition to the marina's shortcomings in potential cash flow, other issues such as downtown improvements and park amenities also play a role in the Village's overall economic picture. By adding improvements in these areas the return will be realized in the downtown district and marketability of the overall Village.

The Village is looking at its own space needs and appropriate locations for some of its departments. These investigations are very preliminary at this time, however may be coming to the front within the coming year. While there are many challenges before us, the Village is blessed with many assets and resources to draw from. Over the years the Village has done a great job establishing a solid base. The base needs a little foundation work to repair or upgrade what has been established, but over all these items are small in the grand picture.

In the marina the rate structure, leases and waiting lists have been reorganized and are now generating additional funds using the existing assets. For the Village's water system there are a number of items that have been on-going in both repairs and maintenance, the Village has acquired the two private water wells from Port Sutton for public use and now the two systems must be tied together in order to satisfy MDEQ other requirements; this will however only satisfy capacity issues but does not satisfy storage, pressures and distribution requirements. The positive to this is the Village will be able to meet the state requirements by only assuming the liability of upgrades instead of both a liability and occurred debt for installing new wells, this is a large savings to the water users. The water department is now treated as an enterprise department instead of being a Village liability, offering less funding support from the general account to stay level in financing their operation.

The Village refinanced the bonds held by the County for the Village sewer system, assumed the liability and debt but at a reduced interest in order to off-set payments and fees and be able to provide additional relief for the upcoming Bonds for the new treatment plant. By creating a rate structure specific to the Village's needs instead of adopting a structure used elsewhere the Village has assured they are covering their true cost instead of estimating cost based on another community's debt load. The sewer department is also being treated as an enterprise department instead of a Village liability, which again provides funding relief to the general account.

The two annexations completed in 2004 will also provide a benefit to the Village's future through additional development and population to assist in increases in tax base and users to pay for system improvements. The Village has been making a significant impact throughout the region and being noticed from well beyond the county. The Village is beginning to peak interest to the area and the challenge for the Village will be to be able to capitalize on the interest in order to promote a family oriented, year-round community that can offer a high quality of living. Future funding expenditures will need to keep in mind the need for upgrades, as well as, new extensions and improvements. It will be important for the Village to provide for the improvements and expansions ahead of the demand in order to reduce the financial burden on the overall Village.

Requests for Information

This discussion and analysis is designed to provide a general overview of the Village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager, Village Hall, PO Box 395, Suttons Bay, MI 49682 or via email at suttonsbay@chartermi.net.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF SUTTONS BAY

STATEMENT OF NET ASSETS

DECEMBER 31, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 342,446	\$ 634,705	\$ 977,151
Receivables	26,765	83,822	110,587
Inventory	-	57,037	57,037
Internal balances	13,513	(13,513)	-
Prepaid expenses	18,548	642	19,190
Other assets	-	13,580	13,580
Land	1,165,964	941,868	2,107,832
Construction in progress	-	159,087	159,087
Depreciable capital assets	349,837	3,027,455	3,377,292
Total assets	1,917,073	4,904,683	6,821,756
LIABILITIES			
Accounts payable and accrued expenses	24,098	93,493	117,591
Unearned revenue	3,200	5,208	8,408
Noncurrent liabilities			
Due within one year	31,663	97,093	128,756
Due in more than one year	21,917	699,219	721,136
Total liabilities	80,878	895,013	975,891
NET ASSETS			
Invested in capital assets, net of related debt	1,462,221	3,332,098	4,794,319
Unrestricted	373,974	677,572	1,051,546
Total net assets	\$ 1,836,195	\$ 4,009,670	\$ 5,845,865

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2004

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities				
General government	\$ 160,002	\$ 16,030	\$ 31,737	\$ (112,235)
Public safety	73,897	-	-	(73,897)
Public works	226,121	-	20,000	(206,121)
Recreation and culture	49,055	-	-	(49,055)
Interest on long-term debt	3,583	-	-	(3,583)
Total governmental activities	512,658	16,030	51,737	(444,891)
Business-type activities				
Sewer	339,298	226,480	-	(112,818)
Water	195,321	106,059	-	(89,262)
Marina	304,008	338,440	-	34,432
Total business-type activities	838,627	670,979	-	(167,648)
Total primary government	\$ 1,351,285	\$ 687,009	\$ 51,737	\$ (612,539)

Continued...

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Changes in net assets			
Net (expense) revenue	\$ (444,891)	\$ (167,648)	\$ (612,539)
General revenues			
Property taxes	448,823	-	448,823
Grants and contributions not restricted to specific programs	105,308	-	105,308
Unrestricted investment earnings	4,767	5,596	10,363
Gain on sale of capital assets	4,224	-	4,224
Transfers - internal activities	40,000	(40,000)	-
Total general revenues and transfers	603,122	(34,404)	568,718
Changes in net assets	158,231	(202,052)	(43,821)
Net assets, beginning of year	1,677,964	4,211,722	5,889,686
Net assets, end of year	\$ 1,836,195	\$ 4,009,670	\$ 5,845,865

Concluded

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2004

	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 275,420	\$ 49,771	\$ 325,191
Accounts receivable	18,055	8,710	26,765
Prepaid expenditures	11,476	-	11,476
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 304,951</u></u>	<u><u>\$ 58,481</u></u>	<u><u>\$ 363,432</u></u>
Liabilities			
Accounts payable	\$ 5,484	\$ 12,531	\$ 18,015
Accrued expenses	2,786	702	3,488
Deferred revenue	3,200	-	3,200
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>11,470</u>	<u>13,233</u>	<u>24,703</u>
Fund balances			
Reserved for prepaid expenditures	11,476	-	11,476
Unreserved			
Undesignated			
General Fund	282,005	-	282,005
Special revenue funds	-	45,248	45,248
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>293,481</u>	<u>45,248</u>	<u>338,729</u>
Total liabilities and fund balances	<u><u>\$ 304,951</u></u>	<u><u>\$ 58,481</u></u>	<u><u>\$ 363,432</u></u>

Continued ...

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2004

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

Fund balances - total governmental funds	\$ 338,729
--	------------

Amounts reported for governmental activities in the statement of net assets
are different because

Capital assets used in governmental activities are not current financial resources
and therefore are not reported in the funds.

Add - capital assets	1,447,020
Deduct - accumulated depreciation	(134,914)

An internal service fund is used by management to charge the costs of certain equipment
usage to individual governmental and enterprise funds. A portion of the assets and
liabilities of the internal service fund are included in governmental activities in the
statement of net assets.

Add - net assets of governmental-type activities accounted for in the internal service fund	<u>185,360</u>
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Net assets of governmental activities	<u>\$ 1,836,195</u>
--	----------------------------

Concluded

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 448,823	\$ -	\$ 448,823
State revenues	47,266	58,042	105,308
State grant	9,789	-	9,789
Contributions	1,800	-	1,800
License and permits	11,472	-	11,472
Charges for services	1,950	-	1,950
Fines and forfeits	808	-	808
Sale of assets	4,224	-	4,224
Interest	4,020	747	4,767
Miscellaneous	21,948	-	21,948
Total revenues	552,100	58,789	610,889
Expenditures			
Current			
General government	136,082	-	136,082
Public safety	73,897	-	73,897
Public works	141,145	-	141,145
Recreation and culture	55,257	-	55,257
Highway and streets	-	76,232	76,232
Total expenditures	406,381	76,232	482,613
Revenues over (under) expenditures	145,719	(17,443)	128,276
Other financing sources (uses)			
Transfers in	40,000	28,500	68,500
Transfers out	(18,500)	(10,000)	(28,500)
Total other financing sources	21,500	18,500	40,000
Net changes in fund balances	167,219	1,057	168,276
Fund balances, beginning of year	126,262	44,191	170,453
Fund balances, end of year	\$ 293,481	\$ 45,248	\$ 338,729

Continued...

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balances - total governmental funds	\$ 168,276
--	------------

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	8,896
Deduct - depreciation expense	(6,743)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The net revenue (expense) of the internal service fund attributable to the governmental funds is reported with governmental activities.

Add - capital contribution	20,000
Deduct - interest expense	(3,583)
Deduct - net operating loss from governmental activities accounted for in the internal service fund	(28,615)

Change in net assets of governmental activities	\$ 158,231
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Concluded

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$ 439,400	\$ 439,400	\$ 448,823	\$ 9,423
State revenues	48,631	48,631	47,266	(1,365)
State grant	-	-	9,789	9,789
Contributions	1,000	1,000	1,800	800
License and permits	4,000	4,000	11,472	7,472
Charges for services	2,000	2,000	1,950	(50)
Fines and forfeits	550	550	808	258
Sale of assets	5,000	5,000	4,224	(776)
Interest	6,640	6,640	4,020	(2,620)
Miscellaneous	-	-	21,948	21,948
Total revenues	507,221	507,221	552,100	44,879
General government				
Village council	300,452	300,452	95,920	(204,532)
Village manager	14,330	14,330	15,267	937
Elections	600	600	686	86
Clerk	9,300	9,300	11,251	1,951
Treasurer	4,810	4,810	4,475	(335)
Village hall	35,550	35,550	8,483	(27,067)
Total general government	365,042	365,042	136,082	(228,960)
Public safety				
Law enforcement	70,986	72,786	73,897	1,111

Continued ...

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Public works				
Department of public works	\$ 82,415	\$ 82,415	\$ 78,814	\$ (3,601)
Zoning and planning	20,778	20,778	52,590	31,812
Street lighting	10,000	10,000	9,741	(259)
Total public works	113,193	113,193	141,145	27,952
Recreation and culture				
Parks	55,910	55,910	55,257	(653)
Total expenditures	605,131	606,931	406,381	(200,550)
Revenues over (under) expenditures	(97,910)	(99,710)	145,719	245,429
Other financing sources (uses)				
Transfers in	57,000	57,000	40,000	(17,000)
Transfers out	-	-	(18,500)	(18,500)
Total other financing sources (uses)	57,000	57,000	21,500	(35,500)
Net change in fund balance	(40,910)	(42,710)	167,219	209,929
Fund balance, beginning of year	126,262	126,262	126,262	-
Fund balance, end of year	\$ 85,352	\$ 83,552	\$ 293,481	\$ 209,929

Concluded

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

DECEMBER 31, 2004

	Business-type Activities			Total	Internal Service - Motor Pool
	Enterprise - Sewer	Enterprise - Water	Enterprise - Marina		
Assets					
Current assets					
Cash and cash equivalents	\$ 333,555	\$ 59,913	\$ 241,237	\$ 634,705	\$ 17,255
Accounts receivable	75,520	8,302	-	83,822	-
Due from other funds	2,360	-	-	2,360	-
Inventory	-	-	57,037	57,037	-
Prepaid expenses	-	-	642	642	7,072
Total current assets	411,435	68,215	298,916	778,566	24,327
Noncurrent assets					
Land	-	-	941,868	941,868	-
Depreciable capital assets - net	1,589,772	703,854	892,916	3,186,542	203,695
Bond issuance costs	13,580	-	-	13,580	-
Total noncurrent assets	1,603,352	703,854	1,834,784	4,141,990	203,695
Total assets	2,014,787	772,069	2,133,700	4,920,556	228,022
Liabilities					
Current liabilities					
Accounts payable	62,895	19,079	3,765	85,739	2,595
Accrued expenses	3,709	3,130	915	7,754	-
Unearned revenue	3,575	-	1,633	5,208	-
Due to other funds	-	2,360	-	2,360	-
Current portion of bonds payable	53,000	12,000	32,093	97,093	31,663
Total current liabilities	123,179	36,569	38,406	198,154	34,258
Noncurrent liabilities					
Bonds payable, net of current portion	240,500	222,000	236,719	699,219	21,917
Total liabilities	363,679	258,569	275,125	897,373	56,175
Net assets					
Investment in capital assets, net of related debt	1,296,272	469,854	1,565,972	3,332,098	150,115
Unrestricted	354,836	43,646	292,603	691,085	21,732
Total net assets	\$ 1,651,108	\$ 513,500	\$ 1,858,575	\$ 4,023,183	\$ 171,847

Continued ...

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

DECEMBER 31, 2004

Reconciliation of Net Assets on the Statement of Net Assets for Enterprise Funds to Net Assets of Business-Type Activities on the Statement of Net Assets

Net assets - total enterprise funds	\$ 4,023,183
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Amounts reported for business-type activities in the statement of net assets
are different because

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. A portion of the assets and liabilities of the internal service fund are included in business-type activities in the statement of net assets.

Deduct - net assets of business-type activities accounted for in the internal service fund	(13,513)
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Net assets of business-type activities	<u>\$ 4,009,670</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Activities			Total	Internal Service - Motor Pool
	Enterprise - Sewer	Enterprise - Water	Enterprise - Marina		
Operating revenues					
Charges for services	\$ 226,480	\$ 106,059	\$ 338,440	\$ 670,979	\$ 52,600
Operating expenses					
Personnel services	56,203	57,084	96,464	209,751	11,882
Supplies and materials	4,384	6,183	61,189	71,756	11,081
Contractual services	118,811	19	4,695	123,525	-
Repairs and maintenance	88,208	91,930	22,320	202,458	12,404
Depreciation	42,528	20,442	88,339	151,309	59,361
Utilities	3,661	4,379	6,298	14,338	-
Other	4,986	157	3,526	8,669	-
Total operating expenses	318,781	180,194	282,831	781,806	94,728
Operating (loss) income	(92,301)	(74,135)	55,609	(110,827)	(42,128)
Nonoperating revenues (expenses)					
Interest income	5,596	-	-	5,596	-
Interest and fiscal charges	(16,543)	(13,935)	(12,830)	(43,308)	(3,583)
Total nonoperating expenses	(10,947)	(13,935)	(12,830)	(37,712)	(3,583)
Income (loss) before contributions and transfe	(103,248)	(88,070)	42,779	(148,539)	(45,711)
Other financing sources (uses)					
Capital contributions	-	-	-	-	20,000
Transfers out	-	-	(40,000)	(40,000)	-
Change in net assets	(103,248)	(88,070)	2,779	(188,539)	(25,711)
Net assets, beginning of year	1,754,356	601,570	1,855,796	4,211,722	197,558
Net assets, end of year	\$ 1,651,108	\$ 513,500	\$ 1,858,575	\$ 4,023,183	\$ 171,847

Continued ...

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

Reconciliation of the Statement of Revenues, Expenses and Changes in Net Assets of Enterprise Funds to the Statement of Activities

Change in net assets - all enterprise funds	\$ (188,539)
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The net revenue (expense) of the internal service fund attributable to the enterprise funds is reported with business-type activities.

Add - net operating loss of business-type activities accounted for in the internal service fund	<u>(13,513)</u>
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Change in net assets of business-type activities	<u>\$ (202,052)</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Activities				
	Enterprise- Sewer	Enterprise- Water	Enterprise- Marina	Total	Internal Service- Motor Pool
Reconciliation of operating (loss) income to net cash provided by operating activities					
Operating (loss) income	\$ (92,301)	\$ (74,135)	\$ 55,609	\$ (110,827)	\$ (42,128)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities					
Depreciation	42,528	20,442	88,339	151,309	59,361
Changes in assets and liabilities					
Receivables	(28,604)	(5,762)	-	(34,366)	35,000
Inventories	-	-	(18,560)	(18,560)	-
Prepaid expenses	-	-	(642)	(642)	(3,068)
Accounts payable	50,866	18,928	2,772	72,566	(251)
Accrued expenses	(12,255)	808	915	(10,532)	-
Unearned revenue	12,825	-	(673)	12,152	-
Net cash (used in) provided by operating activities	\$ (26,941)	\$ (39,719)	\$ 127,760	\$ 61,100	\$ 48,914
					Concluded

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Activities			Total	Internal Service- Motor Pool
	Enterprise- Sewer	Enterprise- Water	Enterprise- Marina		
Cash flows from operating activities					
Cash received from interfund services	\$ -	\$ -	\$ -	\$ -	\$ 87,600
Cash received from customers	210,701	100,297	337,767	648,765	-
Cash payments to suppliers for goods and services	(225,387)	(140,824)	(210,922)	(577,133)	(38,686)
Cash payments to employees for services	(12,255)	808	915	(10,532)	-
Net cash (used in) provided by operating activities	(26,941)	(39,719)	127,760	61,100	48,914
Cash flows from non-capital financing activities					
Transfers to other funds	-	-	(40,000)	(40,000)	-
Cash flows from capital and related financing activities					
Bond issuance costs	(8,780)	-	-	(8,780)	-
Local grant	-	-	-	-	20,000
Principal payments	(36,500)	(11,000)	(30,678)	(78,178)	(30,077)
Interest payments	(16,543)	(13,935)	(12,830)	(43,308)	(3,583)
Purchases of capital assets	(158,396)	-	-	(158,396)	(64,252)
Net cash used in capital and related financing activities	(220,219)	(24,935)	(43,508)	(288,662)	(77,912)
Cash flows provided by investing activities					
Interest received	5,596	-	-	5,596	-
Net (decrease) increase in cash and cash equivalents	(241,564)	(64,654)	44,252	(261,966)	(28,998)
Cash and cash equivalents, beginning of year	575,119	124,567	196,985	896,671	46,253
Cash and cash equivalents, end of year	\$ 333,555	\$ 59,913	\$ 241,237	\$ 634,705	\$ 17,255

Continued ...

The accompanying notes are an integral part of these financial statements.

VILLAGE OF SUTTONS BAY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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DECEMBER 31, 2004

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VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Village of Suttons Bay is governed by an elected Village President and a six member council not including the Village President. The accompanying financial statement presents the activities of the Village for which it is financially accountable.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Village reports the following major governmental fund:

The *General Fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Village reports the following major enterprise funds:

The *Water Fund* accounts for the activities of the Village's water distribution.

The *Sewer Fund* accounts for the activities of the Village's sewage disposal and treatment system.

The *Marina Fund* accounts for the activities of the Village's harbor system.

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

Additionally, the Village reports the following fund types:

The *Major Streets Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *Internal Service Fund* accounts for fleet and equipment management to other departments or agencies of the Village, or to other governments, on a cost reimbursement basis.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer, and Marina Enterprise Funds and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equity

1. *Deposits and investments*

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. *Prepaid items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

4. *Inventory*

Inventory held by the enterprise funds are valued at cost on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

5. *Capital assets*

Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component unit are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
System infrastructure	20-50
Vehicles	5-10
Equipment	5-20

6. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Not later than December 31st of each year, the Village Council shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the Village and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the Village Council is the functional level, which is the level at which expenditures may not legally exceed appropriations. The Village Manager may make transfers of appropriations between departments within any funds; however, any supplemental appropriations that amend the total expenditures of any fund require a Village Councils' resolution.

B. Excess of expenditures over appropriations

For the year ended December 31, 2004, the General Fund's expenditures exceeded appropriations as follows:

General Government

Village manager	\$ 937
Elections	86
Clerk	1,951

Public Safety

Law enforcement	1,111
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VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

Public Works	
Zoning and planning	31,812
Transfers Out	18,500

For the year ended December 31, 2004, the Special Revenue Fund's expenditures exceeded appropriations as follows:

Major Streets	
Highway and streets	\$ 7,086
Local Streets	
Highway and streets	2,096

These over expenditures were funded by note proceeds, greater than anticipated revenues in the funds and the use of prior year fund balances.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Michigan Compiled Laws, Section 129.91 authorizes the local government unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the estate of Michigan or its political subdivisions which are rates as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council has designated one bank for the deposit of Village funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and certificates of deposit but not the remainder of state statutory authority as listed above.

The Village's deposit and investment policy is in accordance with statutory authority.

Cash and cash equivalents are reported in the financial statement as follows:

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
<u>\$ 342,446</u>	<u>\$ 634,705</u>	<u>\$ 977,151</u>

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

At year-end, the carrying amount of the primary government's deposits were \$977,151. The bank balance was \$989,395. Of the bank balance, \$101,111 was covered by federal depository insurance, and the remaining balance of \$888,284 was uninsured and uncollateralized.

B. Receivables

Receivables in the Village's governmental-type activities consist entirely of due from other governments. Receivables in the business-type activities consist of 63% due from customers and 37% special assessment receivable.

C. Capital assets

Primary Government

Capital assets activity in the governmental and business-type activities was as follows for the year ended December 31, 2004:

	<u>January 1,</u> <u>2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2004</u>
Governmental activities				
Capital assets not being depreciated – land	\$ 1,165,964	\$ -	\$ -	\$ 1,165,964
Capital assets being depreciated				
Buildings and structures	367,303	3,200	-	370,503
Equipment	322,968	69,948	-	392,916
Total capital assets being depreciated	690,271	73,148	-	763,419
Less accumulated depreciation for				
Buildings and structures	(156,474)	(8,449)	-	(164,923)
Equipment	(191,004)	(57,655)	-	(248,659)
Total accumulated depreciation	(347,478)	(66,104)	-	(413,582)
Total capital assets being depreciated, net	342,793	7,044	-	349,837
Governmental activities capital assets, net	<u>\$ 1,508,757</u>	<u>\$ 7,044</u>	<u>\$ -</u>	<u>\$ 1,515,801</u>

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

	January 1, 2004	Increases	Decreases	December 31, 2004
Business-type activities				
Capital assets not being depreciated				
Land	\$ 941,868	\$ -	\$ -	\$ 941,868
Construction in progress	<u>3,345</u>	<u>155,742</u>	<u>-</u>	<u>159,087</u>
Total capital assets not being depreciated	<u>945,213</u>	<u>155,742</u>	<u>-</u>	<u>1,100,955</u>
Capital assets being depreciated				
Land improvements	735,944	-	-	735,944
Buildings	57,878	-	-	57,878
Sewer system	2,130,560	2,655	-	2,133,215
Water system	997,091	-	-	997,091
Marina	660,255	-	-	660,255
Machinery and equipment	<u>26,362</u>	<u>-</u>	<u>-</u>	<u>26,362</u>
Total capital assets being depreciated	<u>4,608,090</u>	<u>2,655</u>	<u>-</u>	<u>4,610,745</u>
Less accumulated depreciation for				
Land improvements	(285,395)	(56,555)	-	(341,950)
Buildings	(35,778)	(1,645)	-	(37,423)
Sewer system	(662,721)	(42,288)	-	(705,009)
Water system	(272,795)	(20,442)	-	(293,237)
Marina	(162,121)	(27,558)	-	(189,679)
Machinery and equipment	<u>(13,171)</u>	<u>(2,821)</u>	<u>-</u>	<u>(15,992)</u>
Total accumulated depreciation	<u>(1,431,981)</u>	<u>(151,309)</u>	<u>-</u>	<u>(1,583,290)</u>
Total capital assets being depreciated, net	<u>3,176,109</u>	<u>(148,654)</u>	<u>-</u>	<u>3,027,455</u>
Business-type activities capital assets, net	<u>\$ 4,121,322</u>	<u>\$ 7,088</u>	<u>\$ -</u>	<u>\$ 4,128,410</u>

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 6,743
Capital assets held by the Village's internal service funds charged to the various functions based on their usage of the assets	<u>59,361</u>
Total depreciation expense – governmental activities	<u>\$ 66,104</u>
Business-type activities	
Sewer	\$ 42,528
Water	20,442
Marina	<u>88,339</u>
Total depreciation expense – business-type activities	<u>\$ 151,309</u>

D. Account payables and accrued expenses

Accounts payable and accrued expenses in the governmental activities consist of 81% vendor payables and 19% accrued payroll related liabilities. Business-type activities payables consist of 92% vendor payables, 3% accrued payroll related liabilities and 5% accrued interest.

E. Interfund receivables, payables and transfers

Interfund receivable and payable between the Sewer and Water Enterprise Fund in the amount of \$2,360 is to cover expenditures incurred in the Sewer Enterprise Fund for expenses of the Water Enterprise Fund.

The composition of interfund transfers is as follows:

	<u>Transfers Out</u>			
	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Marina Fund</u>	<u>Total</u>
Transfers in				
General Fund	\$ -	\$ -	\$ 40,000	\$ 40,000
Local Streets Fund	<u>18,500</u>	<u>10,000</u>	<u>-</u>	<u>28,500</u>
Total	<u>\$ 18,500</u>	<u>\$ 10,000</u>	<u>\$ 40,000</u>	<u>\$ 68,500</u>

Interfund transfers are used to 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them and 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

F. Long-term liabilities

	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Outstanding Balance</u>
Governmental activities			
Internal service funds			
Loader Note Payable	2006	5.50%	\$ 22,660
Dump Truck Note Payable	2006	4.80%	<u>30,920</u>
Total governmental activities			<u>53,580</u>
Business-type activities			
Water Supply System Revenue Bond, Series 1997	2017	5.79%	234,000
Sewer Supply System General Obligation Bond, Series 2004	2009	3.46	293,500
Marina Floating Dock Note Payable, 2001	2007	4.50	<u>268,812</u>
Total Business-type activities			<u>796,312</u>
Total Primary Government			<u>\$ 849,892</u>

The government issued \$293,500 of general obligation bonds for a current refunding of \$280,000 of revenue bonds obligated by Leelanau County. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$13,500. The amount is being netted against the new debt and amortized over the new debt's life, which is shorter than the refunded debt. The transaction also resulted in an economic gain of \$8,169 and a reduction of \$152,178 in future debt service payments.

The revenue bonds' principal and interest are to be paid from the net revenues from the water supply system.

The general obligation bonds within the Sewer Fund have the Village's limited tax obligation. The payments of principal and interest are funded by property tax revenues.

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

Following is a summary of bond and note payable transactions of the for the year ending December 31, 2004:

	<u>General Obligation Bonds</u>	<u>Governmental Activities Note Payable</u>	<u>Business-Type Revenue Bonds</u>	<u>Business-Type Note Payable</u>
Balance payable January 1, 2004	\$ 330,000	\$ 83,657	\$ 245,000	\$ 299,490
Bond refinanced	293,500	-	-	-
Bonds and notes retired	<u>(330,000)</u>	<u>(30,077)</u>	<u>(11,000)</u>	<u>(30,678)</u>
Balances payable December 31, 2004	<u>\$ 293,500</u>	<u>\$ 53,580</u>	<u>\$ 234,000</u>	<u>\$ 268,812</u>
Principal and interest due in one year	<u>\$ 70,090</u>	<u>\$ 31,663</u>	<u>\$ 25,088</u>	<u>\$ 32,094</u>

The annual requirements to pay principal and interest on long-term debt obligations are as follows:

Fiscal Year	<u>Governmental Activities Note Payable</u>		<u>Business-Type General Obligation Bond</u>		<u>Business-Type Revenue Bond</u>		<u>Business-Type Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 31,663	\$ 1,997	\$ 53,000	\$ 17,090	\$ 12,000	\$ 13,088	\$ 32,093	\$ 11,415
2006	21,917	462	55,000	14,038	13,000	12,088	33,564	9,944
2007	-	-	58,000	10,681	14,000	11,088	203,155	2,976
2008	-	-	62,500	7,334	15,000	10,088	-	-
2009	-	-	65,000	3,662	16,000	9,088	-	-
2010-14	-	-	-	-	95,000	30,438	-	-
2015-17	-	-	-	-	69,000	6,263	-	-
	<u>\$ 53,580</u>	<u>\$ 2,459</u>	<u>\$ 293,500</u>	<u>\$ 52,805</u>	<u>\$ 234,000</u>	<u>\$ 92,141</u>	<u>\$ 268,812</u>	<u>\$ 24,335</u>

G. Commitments

In connection with the upgrade of the wastewater treatment plant, more fully described in note IV. E. below, the Village entered into a contract with Gosling Czubak in the amount of \$469,000. Project costs through December 31, 2004 were \$187,350. Total remaining estimated costs are \$281,650.

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Risk management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended December 31, 2004, the Village carried commercial insurance through various commercial carriers, to cover all risks of loss. The Village has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

The Village's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of February 28 of the succeeding year, unpaid real property taxes are sold to and collected by Leelanau County.

Assessed values as established annually by the Village, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the Village for the 2003 levy were assessed and equalized at \$47,060,195 (not including properties subject to Industrial Facilities Tax Exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2004 was 9.5 mills.

C. Defined contribution plan

The Village sponsors the "Village of Suttons Bay Retirement Plan," a self-administered defined contribution plan created in accordance with Internal Revenue Code Section 401(k). The plan covers substantially all employees with the exception of seasonal employees. Employer contributions are based upon a percentage of annual payroll. Employees make additional contributions if they so desire. Employees are vested 100% immediately in employee contributions and vest 20% for at least two but no more than three, 40% for at least three but no more than four, 60% for at least four but no more than five, and 80% for at least five but no more than six and 100% at six or more years of service. During 2004, employer contributions amounted to \$7,997 and employee contributions amounted to \$3,227.

Plan provisions and contributions requirements are established and may be amended by the Village of Suttons Bay.

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

D. Restatements

As of and for the year ended December 31, 2004, the Village implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. The more significant changes required by the new standards include:

- Management’s discussion and analysis
- Basic financial statements that include
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statements
- Required supplementary information, including certain budgetary schedules

As a result of implementing these pronouncements for the fiscal year ended December 31, 2004, the following restatements were made to beginning fund balance and net asset accounts:

The beginning net assets of the Sewer and Water Enterprise Fund and of the Internal Service Fund were derived by aggregating the previously reported retained earnings and contributed capital of those funds.

VILLAGE OF SUTTONS BAY
NOTES TO FINANCIAL STATEMENTS

Government-wide financial statements. Beginning net assets for governmental activities was determined as follows:

Fund balances of General and special revenue funds as of December 31, 2003	\$ 170,453
Add - governmental capital assets, including general fixed assets, as of December 31, 2003	1,438,123
Add – governmental-type internal service fund net assets as of December 31, 2003	197,558
Deduct - accumulated depreciation as of December 31, 2003 on above governmental capital assets	<u>(128,170)</u>
Governmental net assets, restated, as of January 1, 2004	<u>\$ 1,677,964</u>

E. Subsequent Events

Subsequent to December 31, 2004 the Village Board approved to upgrade the wastewater treatment plant with an estimated cost of \$4.5 million. \$2.2 million was obtained from advanced tap-in fees from a nearby condominium development. In conjunction with this advancement the Village also obtained ownership of the wastewater development equipment. The Village anticipates a bond offering in the amount of \$2.2 million and the remaining amount is anticipated to be funded from Village cash accounts.

Subsequent to December 31, 2004 the Village also obtained ownership of separate wastewater system from another nearby condominium association in exchange for \$1.

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SUPPLEMENTARY INFORMATION

FUND FINANCIAL STATEMENTS

VILLAGE OF SUTTONS BAY

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2004

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Major Street</u>	<u>Local Street</u>	
Assets			
Cash and cash equivalents	\$ 39,413	\$ 10,358	\$ 49,771
Accounts receivable	5,816	2,894	8,710
Total assets	\$ 45,229	\$ 13,252	\$ 58,481
Liabilities			
Accounts payable	\$ -	\$ 12,531	\$ 12,531
Accrued liabilities	351	351	702
Total assets	351	12,882	13,233
Fund balances			
Unreserved and undesignated	44,878	370	45,248
Total liabilities and fund balances	\$ 45,229	\$ 13,252	\$ 58,481

VILLAGE OF SUTTONS BAY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2004

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Major Street	Local Street	
Revenues			
State revenues	\$ 39,102	\$ 18,940	\$ 58,042
Interest	647	100	747
Total revenues	39,749	19,040	58,789
Expenditures			
Highway and streets			
Administration	9,616	12,253	21,869
Routine maintenance	15,420	38,943	54,363
Total highway and streets	25,036	51,196	76,232
Revenues over (under) expenditures	14,713	(32,156)	(17,443)
Other financing sources (uses)			
Transfers in	-	28,500	28,500
Transfers out	(10,000)	-	(10,000)
Total other financing (uses) sources	(10,000)	28,500	18,500
Net change in fund balances	4,713	(3,656)	1,057
Fund balances, beginning of year	40,165	4,026	44,191
Fund balances, end of year	\$ 44,878	\$ 370	\$ 45,248

VILLAGE OF SUTTONS BAY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL MAJOR STREET FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
State revenues	\$ 37,000	\$ 37,000	\$ 39,102	\$ 2,102
Interest	-	-	647	647
Total revenues	37,000	37,000	39,749	2,749
Expenditures				
Public works - highways and streets	17,950	17,950	25,036	7,086
Revenues over expenditures	19,050	19,050	14,713	(4,337)
Other financing (uses)				
Transfers out	11,000	11,000	-	(11,000)
Transfers out	(30,000)	(30,000)	(10,000)	20,000
Total other financing (uses) sources	(19,000)	(19,000)	(10,000)	9,000
Net change in fund balance	50	50	4,713	4,663
Fund balance, beginning of year	40,165	40,165	40,165	-
Fund balance, end of year	\$ 40,215	\$ 40,215	\$ 44,878	\$ 4,663

VILLAGE OF SUTTONS BAY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL LOCAL STREET FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
State revenues	\$ 19,000	\$ 19,000	\$ 18,940	\$ (60)
Miscellaneous	-	-	100	100
Total revenues	19,000	19,000	19,040	40
Expenditures				
Public works - highways and streets	49,100	49,100	51,196	2,096
Revenues (under) over expenditures	(30,100)	(30,100)	(32,156)	(2,056)
Other financing sources				
Transfers in	30,000	30,000	28,500	(1,500)
Net change in fund balance	(100)	(100)	(3,656)	(3,556)
Fund balance, beginning of year	4,026	4,026	4,026	-
Fund balance, end of year	\$ 3,926	\$ 3,926	\$ 370	\$ (3,556)



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

April 27, 2005

Village Council
Village of Suttons Bay, Michigan

In planning and performing our audit of the financial statements of the ***Village of Suttons Bay*** (the "Village") as of and for the year ended December 31, 2004, we considered the Village's internal control structure to determine our auditing procedures for the purpose of forming opinions on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated April 27, 2005 on the financial statements of the ***Village of Suttons Bay***.

We will review the status of these comments and suggestions during our next audit engagement. We have already discussed these comments and suggestions with various Village personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Rehmann Robson

Village of Suttons Bay
Comments and Recommendations
December 31, 2004

1) Internal Control Procedures

The size of the accounting staff of the Village of Suttons Bay precludes adequate segregation of duties for optimal internal control. Further, those with management responsibilities, for example authorization and approval of transactions and accounting reconciliations, should not have accounting responsibilities or custody of physical assets. We consider this lack of segregation of duties a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters, coming to our attention that relate to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Ideally, the internal control system of the Village should segregate the accounting responsibilities from employees who have access to or custody of physical assets such as cash and inventory. Below are suggestions for improvements to the Village's internal controls.

Village Hall receipting

- The Village's process of recording cash receipts is that the Clerk lists the individual receipts on a deposit slip, takes the deposit to the bank and forwards the deposit slip to the bookkeeper along with the remittance advices for water, sewer, and marina utilities to be recorded into the general ledger. If the Clerk is not available, the Bookkeeper receives the funds and forwards them on to the Clerk. A pre-numbered receipt is issued if a customer makes a payment at the Village Hall. Customers who submit payment via mail are not issued a receipt. This does not allow adequate separation of duties in the receipting process which could result in misappropriation of assets.

We recommend the Clerk list all the receipts in a log, forward the receipts to the Bookkeeper who would prepare the deposit slip and record the deposit in the general ledger. The deposit slip then should be given to the Clerk to verify all receipts listed on her log are included. Once any discrepancies are rectified, the Clerk may document her approval of the deposit by initialing the deposit slip.

In addition, we recommend a pre-numbered receipt be issued for each payment received which would provide information that might be needed at a later date, such as payee, amount, description of the payment and the account number used to record the transaction.

Village of Suttons Bay
Comments and Recommendations
December 31, 2004

Marina receipting

- The Marina collects cash from various sources, including transient fees, gasoline sales, ice sales, pump out fees and ramp fees. At times, various employees are collecting cash and there is no control mechanism, such as pre-numbered receipts, to verify the sales. In addition, any employee reconciles the cash at the end of day. The receipts are locked in the bath house and the transmittal reporting the revenue received is forwarded to the Bookkeeper and deposited on an as-need basis by the Harbormaster. Having multiple employees involved in the cash receipting process provides opportunities for misappropriation of assets. Lack of supporting documentation precludes the ability to reconcile sales reports to deposits per bank statements.

We recommend one employee assume the responsibility for the cash register. This will allow the Village to trace back to a single individual if funds did not balance to the receipt totals at the end of the day.

If more than one employee is assigned to the cash register in a day, each employee should balance their cash drawer before the next employee starts his or her shift. Balancing the cash drawer should include agreeing the cash received along with the credit card charges to the receipt totals provided by the cash register and credit card machine through a reconciliation report and documentation should be provided if any shorts or overages occur. Also, if it is determined by management that pre-numbered receipts would be a cost beneficial reconciliation of ramp fees, pump out fees, and transients slips would be made at this time to the total sales per the cash register. This should be reviewed by the Harbormaster on a daily basis and the funds should be remitted to the Village Hall to be recorded by the Bookkeeper and deposited.

These additional controls will prevent and deter the possibility of employees misappropriating cash.

Control over funds and blank check stock

- Deposits generally are made on a bi-weekly basis. In the interim, funds received are kept in an unlocked area (at the bath house for the marina and at the village hall for all others) along with blank check stock. This allows the possibility of unauthorized access, which could lead to misuse and misappropriation of Village assets. We recommend the Village purchase a lock box or safe to hold the cash receipts (checks and currency) and blank check stock and allow limited access by appropriate individuals. This will prevent funds and check stock from being misappropriated or misused by unauthorized personnel.

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Journal entries

- General journal entries are prepared by the Bookkeeper to record various transactions in the general ledger, such as non-proprietary (water and sewer) receipts, interest earned, electronic funds transfer of payroll taxes, depreciation expense, and accruals for receivables and payables at year end. If one individual prepares and posts journal entries with no review process, the possibility of journal entries being entered that are inaccurate or fraudulent is increased.

We recommend each journal entry be reviewed and approved by someone other than the person who prepared the journal entry. The reviewer should have an appropriate level of responsibility and knowledge of the accounting system. This would prevent intentional or unintentional errors from occurring. (For example, recording a wire transfer or a credit memorandum on a receivable that did not occur.)

Utility billing procedures

- The water and sewer utility transactions are being processed by one employee. This employee is downloading the meter readings and preparing and posting the utility billings. In addition, this same employee is making billing adjustments as deemed necessary and posting those adjustments to the Village accounts in the general ledger. This lack of segregation of duties, mainly in the area of review and approval of transactions, could allow an employee to adjust rates and make adjustments inappropriately, which may result in a misappropriation of Village assets and/or fraudulent financial reporting. We recommend that the billing cycle run be reviewed and approved by management. Further, we recommend that adjustments to customer billings be reviewed and approved as evidenced by initials or the signature of management prior to the processing of billings or the recording of adjustments.

Bank Reconciliation

- The Village Bookkeeper records the cash receipts, prepares the utility billings and payables, initiates the payroll tax wire transfers and reconciles the bank accounts. Performing all of these functions increases the risk of misappropriation of assets, such as issuing credit memorandums for receipts received, making an unauthorized wire transfer, or preparing unauthorized checks.

To mitigate the possibility of Village funds being misappropriated, we recommend the Village Treasurer, review each bank account reconciliation looking for unusual or unexpected wire transfers and review the canceled checks to assure proper signatures.

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Reconciliations of subsidiary ledgers

- Reconciliations between the utility receivable subsidiary ledger to the general ledger control account, as well as the accounts payable subsidiary ledger to the general ledger control account, are currently not being done. This allows for errors (incorrect postings to the general ledger) that may not be caught in a timely manner.

We recommend reconciliations for utility receivables and accounts payable be performed on a monthly basis to assure all postings are included in the general ledger which supports the Village's financial statements to assure accurate financial reporting.

Tax refund checks

- Property tax refunds are issued by the Treasurer with no review process in place and the checks issued from the tax account only requires the Treasurer's signature. This allows the Treasurer significant control over these funds and increases the risk that a check for overpayment of taxes may be issued even though overpayment did not occur. We recommend all checks disbursed require both the Clerk and Treasurer signature. This would prevent any unauthorized disbursement and misappropriation of Village funds from occurring.

2) Depository accounts

All of the Village funds are currently being held at one bank, limiting to a maximum of \$200,000 being covered by the Federal Deposit Insurance Corporation. We recommend management evaluate the risks related to uninsured cash. The Village may choose to consider authorizing more than one depository as a method of increasing the insured amount of cash.

3) Policies and procedures and staff training

The accounting department of any entity operates most effectively and efficiently when it has appropriately established policies and procedures under which to conduct business. These procedures define the way in which the business of the Village is to be conducted, how transactions are to be processed, who and when management approval is required, etc. Further procedures may address software system security issues such as anti-fraud programs, network and software security programs and disaster recovery programs.

Although the Village, as is true for all governmental units, is required to follow the State Accounting Manual issued by the Michigan Department of Treasury, each policy and procedure may be tailored to the Village's unique system characteristics.

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Currently, the Village has no formal written policies and procedures, although informal policies and procedures are in place. If and when questions arise, no written guidance is available to follow. Further, if certain staff members were required to take an untimely leave of absence, there is no current documentation to assist other staff members in performing the required duties.

We recommend the Village establish a written plan for how the Village would conduct business if a disaster were to occur that would not allow the staff to operate in their current facility. This plan would include an alternative site, availability of computer hardware, control over financial data, etc.

We recommend the Village begin documenting its significant policies and procedures, in accordance with the State Accounting Manual. This will provide future guidance in how accounting personnel and management are to perform their financial responsibilities. Further, it can be used to define IT security issues, purchase policy, budget policies, back up systems and procedures, anti-fraud programs, conflict of interest statements, investment and EFT policies and disaster recovery programs.

4) Act 51 requirements

Public Act 51 states that the maximum to be spent on major and local street administration expense is 10% of the Village's annual gas and weight tax revenue (Section 13 MCL 247.663). In the current year, the local and major street administration expenses was \$45,447 and \$48,173, respectively, which exceeded allowable amounts of \$12,477 (\$124,765 Gas and Weight tax revenue within the Local Street funds multiplied by ten percent) and \$25,119 (\$251,185 Gas and Weight tax revenue within the Major Street funds multiplied by ten percent), respectively.

In the future, the unallowable portion of administration expenses needs to be recorded and subsidized by the revenue of another fund such as General Fund. To be in compliance, the Village must transfer funds into the Major and Local Street Funds to subsidize the additional administrative expenses, or move the additional administrative expenses to another fund. This will prevent the Village from receiving any comments from Michigan Department of Transportation for Public Act 51 noncompliance.

5) Annual audit

In 2005, the Village received proceeds from the State of Michigan's Sewer Revolving Loan Fund to upgrade the Village's wastewater treatment system. One of the grant/bond requirements is the Village must have an annual audit. The Village will no longer be able to follow the State statutory biannual audit (based on population).